

# THE PETROL OIL AND GAS COMPANY LIMITED



1979 ANNUAL REPORT



# The PETROL Oil & Gas Company, Limited

## Corporate Information

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Toronto, Ontario, M5H 3E9

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\* Effective May 1, 1980

TRANSFER AGENT  
AND REGISTRAR  
Crown Trust Company,  
1 First Canadian Place  
Toronto, Ontario,  
M5X 1G4

BANKERS  
The Royal Bank of Canada  
Calgary, Alberta

SOLICITORS  
MacKimmie, Matthews  
Calgary, Alberta

AUDITORS  
Clarkson Gordon  
Calgary, Alberta

LISTING  
Toronto Stock Exchange

## Directors

R.J. BURNS, Q.C.  
Calgary, Alberta  
P.G. CLARKE  
Calgary, Alberta  
A.R. CUMMINGS  
Cochrane, Alberta  
L.B. GORDON  
Calgary, Alberta  
R.N. MANNIX  
Calgary, Alberta  
F.R. MATTHEWS, Q.C.  
Calgary, Alberta  
D.W. McCLEMENT  
Calgary, Alberta

## Officers and Key Personnel

L.B. GORDON  
Chairman of the Board  
A.R. CUMMINGS  
President  
W.B. RICHARDS  
Executive Vice President  
and General Manager  
D.V. BOECHLER  
Vice President Production  
L.G. ELHATTON  
Vice President  
L.A. GUST  
Vice President  
U.S. Operations  
H.K. JONES  
Vice President  
Corporate Development  
W. PETERS  
Vice President Finance  
and Administration  
G.B. THOMPSON  
Vice President Land  
FRANCES FERGUSON  
Secretary  
J.T. WOOD  
Treasurer

## REPORTING IN METRIC

On January 1, 1979, the Canadian petroleum industry adopted the International System of Units (SI) commonly called the metric system. Pembina has been using some metric units in its 1979 quarterly reports to shareholders. Reporting of company operations in 1980, including this 1979 Annual Report, will use the metric system; however we will include selected operating data in the old Imperial system and will continue to provide a table of appropriate conversion factors.

The most common conversions relating to volumes of oil and gas will be from barrels and cubic feet to cubic metres; one cubic metre is equal to approximately 6.3 barrels or 35.3 cubic feet. In reporting land areas the conversion will be from acres to hectares; one hectare is roughly equivalent to 2.5 acres.

### SI CONVERSION TABLE

To convert from	To	Multiply by
Cubic metre (m <sup>3</sup> )	barrel (bbl)	6.293
Thousands of cubic metres (10 <sup>3</sup> m <sup>3</sup> )	thousand cubic feet (mcf)	35.494
Tonne (t)	long ton (t)	0.984
Metre (m)	foot (ft)	3.281
Kilometre (km)	mile (mi)	0.621
Hectare (ha)	acre (ac)	2.471

#### Examples:

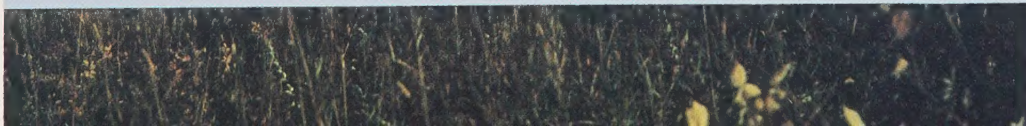
10<sup>3</sup>m<sup>3</sup> = one thousand cubic metres  
10<sup>6</sup>m<sup>3</sup> = one million cubic metres  
10<sup>9</sup>m<sup>3</sup> = one billion cubic metres





## SUMMARY OF THE YEAR 1979

	1979	1978	% Increase (Decrease)
<b>FINANCIAL</b>			
(thousands of dollars, except per share amounts)			
Revenue from operations . . . . .	\$ 4,511	4,482	0.6
Cash expense . . . . .	1,150	971	18.5
Income taxes . . . . .	940	925	1.6
Net income . . . . .	1,563	1,580	(1.1)
per share - ¢ . . . . .	39.1	39.6	
Cash flow net of			
current income taxes . . . . .	2,556	2,986	(14.4)
per share - ¢ . . . . .	64.0	74.7	
Capital expenditures . . . . .	\$ 3,178	2,055	54.6
<b>OPERATING</b>			
<b>METRIC (SI) SYSTEM</b>			
Gross Production			
Crude oil and natural gas liquids			
– m³ per day . . . . .	151	181	(16.6)
Natural gas sales - 10³m³ per day . . . . .	85	90	(5.6)
Land holdings at year end			
(thousands of hectares)			
Gross . . . . .	1 261	1 764	(28.5)
Net . . . . .	53	68	(22.0)
Wells drilled			
Gross . . . . .	50	98	(49.0)
Net . . . . .	1.4	7.6	(81.6)
<b>OPERATING</b>			
<b>IMPERIAL SYSTEM</b>			
Gross production			
Crude oil and natural gas liquids			
(barrels per day) . . . . .	950	1,139	(16.6)
Natural gas			
(thousands of cubic feet per day) . . . . .	3,017	3,194	(5.6)
Land holdings at year end			
(thousands of acres)			
Gross . . . . .	3,116	4,359	(28.5)
Net . . . . .	131	168	(22.0)





## REPORT TO THE SHAREHOLDERS

Petrol's net income for 1979 amounted to \$1,563,000, equal to 39.1¢ a common share, 1.1% below earnings in 1978 of \$1,580,000 or 39.6¢ per share.

Revenue from operations increased slightly (0.6%) from \$4,482,000 in 1978 to \$4,511,000 in 1979. Cash flow, net of current income tax, declined by 14.4% to \$2,556,000 or 64.0¢ per share compared to \$2,986,000 or 74.7¢ per share in 1978. The lower financial results were principally attributable to a decline in the production of petroleum products from the Simonette D<sub>3</sub> field in Alberta and to higher operating costs. Partially offsetting these were higher product prices and a lower provision for Petrol's share of the loss of an affiliated company. Expenditures for exploration and development in 1979 increased by 54.6% to \$3,178,000.

Gross production of crude oil and natural gas liquids averaged 151 cubic metres (950 barrels) per day, 16.6% lower than in 1978. Gross natural gas sales declined by 5.6% to 85 thousand cubic metres (3.0 million cubic feet) per day as natural decline and buyers' cut-backs caused by Alberta's surplus gas supply, exceeded gas deliveries from new properties. Year-end estimates of petroleum liquid reserves at 1 077 10<sup>3</sup>m<sup>3</sup> (6.0 million barrels) indicated that additions during the year were less than production plus downward reserve revisions, occurring chiefly in the Simonette field. Natural gas reserves, however, increased by 6.2% to 1 026 10<sup>6</sup>m<sup>3</sup> (36.4 billion cubic feet).

Additional production, prices and reserves information is available in the Review of Operations and Statistical sections of this Report.

As indicated in our Report last year, an over supply of natural gas exists in Canada; buyers are unable to take delivery of their current contracted volumes. Exploratory drilling, particularly in the Deep Basin and Foothills of Alberta, is adding to the over-supply position and the date when gas sales contracts are again

available, becomes more indefinite. Following hearings in mid-1979, the National Energy Board at year end approved the export of 3.75 trillion cubic feet to the United States. The new export volumes however, were allocated to the applicant exporters on a basis which was not considered adequate to finance the construction of the required transportation facilities. Until this problem is resolved, actual deliveries from Petrol's contracted but shut-in gas reserves continue to be delayed.

Unlike the availability of natural gas, the supplies of crude oil in Canada are falling short of demand; the short-fall is made up by oil imports. Continued reliance on foreign sources exposes Canada not only to high supply risk but also to onerous deficits in the balance of trade in fuels. Higher prices for crude oil and natural gas will provide the cash flow necessary for the search and the development of new reserves, providing that such incremental funds are directed to the search for and the development of new reserves, rather than into additional royalties and taxation.

The Board of Directors extends its sincere thanks to each of the men and women who contributed to the progress of the Company during 1979.

On behalf of the Board,



Chairman



President

Calgary, Alberta  
March 14, 1980







## REVIEW OF OPERATIONS

### PETROLEUM PRODUCTION

#### Crude Oil and Natural Gas Liquids

Petrol's 1979 production of petroleum liquids averaged 151 m<sup>3</sup> (950 barrels) per day; a decrease of 16.6% from 181 m<sup>3</sup> (1,139 barrels) per day in 1978.

PRODUCTION INCLUDING ROYALTY VOLUMES (Daily Average)	1979	Change from 1978	
		Amount	%

#### Metric (SI) System (m<sup>3</sup> per day)

Canada			
Crude oil and condensate . .	132	(30)	(18.5)
Natural Gas Liquids . . . . .	14	(3)	(17.6)
Sub-total . . . . .	146	(33)	(18.4)

#### United States

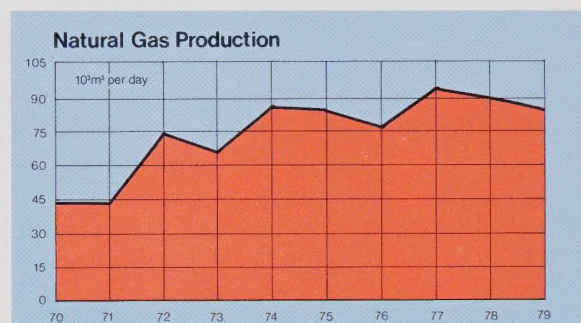
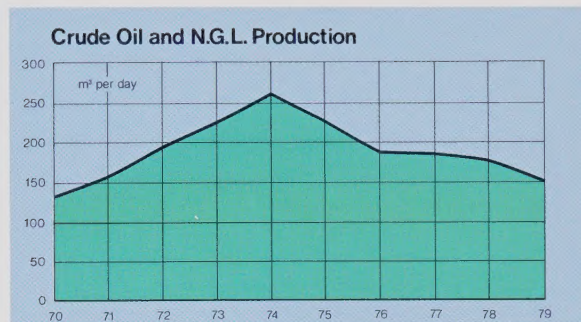
Crude oil and condensate . .	5	3	150.0
Total . . . . .	151	(30)	(16.6)

#### Imperial System (Barrels per day)

Crude oil and condensate . .	862	(170)	(16.5)
Natural gas liquids . . . . .	88	(19)	(17.6)
Total . . . . .	950	(189)	(16.6)

The decline in crude oil and natural gas liquids production is primarily accounted for by the rising oil-water contact level in the D<sub>3</sub> reservoir at Simonette, Alberta. Early in 1979, formation water invaded the oil producing zone in certain areas drastically reducing the oil production in several high volume flowing wells. Gas lift pumping systems capable of handling large volumes of liquids, are now being installed in these wells and are expected to be installed in other wells in the field during the next three to four years. Natural decline in other fields was offset by production from newly developed properties and from in-fill drilling programs in secondary recovery projects.

Production of crude oil and natural gas liquids from the Company's major producing areas is tabulated on page 16.



#### Natural Gas

In 1979 natural gas deliveries before deducting royalty volumes, decreased by 5.6% to 85 10<sup>3</sup>m<sup>3</sup> (3.0 million cubic feet) per day.

PRODUCTION INCLUDING ROYALTY VOLUMES (Daily Average)	1979	Change from 1978	
		Amount	%

#### Metric (SI) System (10<sup>3</sup>m<sup>3</sup> per day)

##### Natural Gas

Alberta . . . . .	82	(5)	(5.7)
British Columbia . . . . .	3	—	—
Total . . . . .	85	(5)	(5.6)

#### Imperial System (mcf per day)

Total . . . . .	3,017	(177)	(5.6)
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During 1979, gas purchasers continued to be faced with supply in excess of demand; as a result producers were forced to reduce deliveries below minimum contract levels, particularly in Alberta. Under the "take or pay" clauses in various gas sales contracts, Petrol received funds during 1979 for gas which will be taken by the purchaser in future years. New gas development and a full year's production



from properties developed in 1978 did not completely offset cut-backs described above and the natural decline in older fields. Production of natural gas by major producing areas is presented on page 16.

## PRICES

Average prices for Petrol's petroleum products during 1979 are shown below:

AVERAGE PRICES RECEIVED	Change from 1978		
	1979	Amount	%
<b>Metric (SI) System</b>			
Crude oil – per m <sup>3</sup> .....	<b>\$85.19</b>	\$ 9.49	12.5
Natural gas liquids per m <sup>3</sup> .....	<b>52.30</b>	(0.06)	—
Natural gas – per 10 <sup>3</sup> m <sup>3</sup> .....	<b>62.53</b>	7.59	14.5
<b>Imperial System</b>			
Crude oil – per bbl .....	<b>13.54</b>	1.51	12.5
Natural gas liquids – per bbl .....	<b>8.31</b>	(.02)	—
Natural gas – per mcf .....	<b>1.76</b>	.21	14.5

The price of Canadian crude oil was increased \$6.29 per m<sup>3</sup> (\$1 per barrel) on July 1, 1979, to \$86.53 per m<sup>3</sup> (\$13.75 per barrel). Effective January 1, 1980, a similar price increase was instituted, raising the current price level to \$92.82 per m<sup>3</sup> (\$14.75 per barrel).

The price for domestic natural gas increased by \$5.32 10<sup>3</sup>m<sup>3</sup> (15¢ per mcf) on August 1, 1979, and a similar increase became effective on February 1, 1980. The export price of natural gas rose from \$2.30 (U.S.) per mcf at May 1, 1979, to \$2.80 on August 11; to \$3.45 on November 3, 1979, and to \$4.47 (U.S.) per mcf effective February 17, 1980. All natural gas produced in Alberta is sold at a federal-provincial government agreed price at Toronto City Gate less transportation and other costs of service back to the wellhead in Alberta. In addition to this domestic price, all producers in Alberta share on a pro-rata production basis with respect to gas exported from Canada, the differential between the domestic price and the higher export price. The export rebate received by all producers in Alberta, which varies from month to month, amounted to \$25.20 per m<sup>3</sup> (\$0.71 per mcf) in December 1979.

## RESERVES

Petrol's proven and probable additional reserves of petroleum liquids and natural gas (before deducting royalties), as calculated by independent consulting engineers are compared with the previous year below:

RESERVES*	December 31	
	1979	1978
<b>Metric (SI) System</b>		
Crude oil – 10 <sup>3</sup> m <sup>3</sup> .....	841	945
Natural gas liquids – 10 <sup>3</sup> m <sup>3</sup> .....	120	132
Natural gas – 10 <sup>6</sup> m <sup>3</sup> .....	1 026	966
Sulphur – 10 <sup>3</sup> t .....	73	74
<b>Imperial System</b>		
Crude oil – (thousands of barrels) .....	5,294	5,998
Natural gas liquids (thousands of barrels) .....	753	830
Natural gas – (billion cubic feet) .....	36.4	34.3
Sulphur – (thousands of long tons) .....	72.0	73.0

\*Estimated proven and probable additional before deducting royalties.

## LAND

At year end 1979, Petrol held varying interests in 1,261 thousand gross hectares (3.1 million acres) equivalent to 53 thousand net or wholly-owned hectares (131 thousand net acres) in the areas and countries shown in the tabulation below:

PETROL LAND HOLDINGS	Gross Hectares		Net Hectares	
	Year- end 1979	Change vs. 1978	Year- end 1979	Change vs. 1978
<b>Metric (SI) System</b> (Thousands of hectares)				
Alberta .....	<b>387</b>	33	<b>21</b>	1
British Columbia .....	<b>78</b>	15	<b>7</b>	1
Saskatchewan .....	<b>14</b>	—	<b>1</b>	—
Northwest Territories .....	<b>140</b>	(409)	<b>5</b>	(13)
Arctic Islands .....	<b>445</b>	(53)	<b>12</b>	1
Beaufort Sea .....	<b>153</b>	(101)	<b>8</b>	(5)
United States .....	<b>44</b>	12	<b>(1)</b>	—
Total .....	<b>1,261</b>	(503)	<b>53</b>	(15)
<b>Imperial System</b> (Thousands of acres)				
Total .....	<b>3,116</b>	(1,243)	<b>131</b>	(37)



Land acquisitions were made in the Parkland and Bigfoot areas of British Columbia and the Musreau Lake, Clyden, House Mountain, Manning, Whitefish, Lac La Biche, Sakwatamau, Wabasca, South Gold Creek, Haig, Watelet, Westlock, Rainbow, Strachan, Rainbow Lake, Leddy Lake and Mink Lake areas of Alberta. These acquisitions increased Petrol's net land position in those provinces during 1979. In the Northwest Territories, lease selections were made from certain permits in the Fort Norman, Wrigley, Root River and Inuvik areas, and permits were allowed to expire at Great Bear Lake. In the Arctic Islands, permits were allowed to expire on Prince of Wales Island. In the Beaufort Sea area, Petrol retained net profits interest on 100,400 hectares (248,100 acres) which it farmed out. Exploratory holdings were also acquired in Texas and Louisiana, Offshore Gulf of Mexico.

## DRILLING ACTIVITY

During 1979, Petrol participated in the drilling of 50 gross development and exploration wells in Alberta and British Columbia. Petrol's average interest in these wells was 2.8% or the equivalent of 1.4 net wells.

Of the total 50 wells in which Petrol participated, 22 were drilled through farmout agreements with other companies whereby Petrol contributed land rather than cash to the ventures. Significant areas of exploratory drilling activity are reviewed in the Exploration section of this report.

Petrol's 1979 development and exploratory well completions are compared with the prior year below:

DRILLING ACTIVITY	Development		Exploratory	
	1979	1978	1979	1978
Gross wells .....	15.0	45.0	35.0	53.0
Oil .....	5.0	2.0	9.0	—
Gas .....	8.0	40.0	17.0	13.0
Dry .....	2.0	3.0	9.0	40.0
Net wells .....	0.6	3.3	0.8	4.3
Oil .....	0.2	0.1	0.2	0.8
Gas .....	0.3	2.7	0.3	0.6
Dry .....	0.1	0.5	0.3	2.9

## EXPLORATION

### CANADA

The most significant wells in which Petrol participated during 1979, were at Standard, Entice and Musreau in Alberta. At Standard, two oil wells and two gas wells were successfully completed. One of these wells encountered Belly River, Glauconite and Mississippian gas, as well as a thick Basal Quartz oil zone. The Company has a 3.5% interest in 17 800 hectares (44,000 acres) in this area. In the Entice area, Petrol participated with associates in drilling and completing five Belly River gas wells. In this area, Petrol holds an average 3.2% interest in 7 690 hectares (19,000 acres). In the Musreau area, Petrol participated in drilling and completing a multi-zone Cretaceous gas well. The Company has a 3.75% interest in 2 980 hectares (7,360 acres) in this area.

Petrol joined with others in a number of seismic programs to delineate additional exploratory plays. In the Rainbow and Strachan areas, these programs allowed the Company to acquire prospective acreage and firm up plans to drill several deep tests in 1980.

### UNITED STATES

Petrol is active in the United States through its 15% equity ownership in Decalta International Corporation (D.I.C.). It also participates directly in other exploration and development ventures through its wholly-owned U.S. subsidiary, The Petrol Oil and Gas Corporation.

#### Decalta International Corporation (D.I.C.)

D.I.C. participated in an on-going program of oil and gas exploration in the Gulf of Mexico, offshore Louisiana and Texas. D.I.C.'s share of natural gas deliveries arising from development drilling in these offshore areas showed satisfactory progress as evidenced by estimated average daily throughputs (in million of cubic feet) during December 1979:

Blocks	Block total millions cubic feet daily	D.I.C.'s Interest %
349/330	210	1.6
339/340	100	2.0
317	60	1.0
313	20	2.0
273	40	1.8



Development drilling is continuing on the above listed Blocks as well as on Blocks 474, 563 and 582. Gas deliveries are scheduled to commence from Blocks 474 and 563 in 1980 and from Block 582 in 1981.

In addition to its equity position in D.I.C., Petrols owns direct interests ranging from 1.2% to 2.9% in six other blocks in the Gulf of Mexico. Gas production from Block 281 (Petrol 2%) is expected to go on stream by mid-1980.

Production drilling platforms have been ordered for Block 350 (Petrol 1.5%) and for Block 504 (Petrol 2.9%). The remaining Blocks 367, 442 and 483 are still in the exploration phase.

A follow-up well to a gas discovery on Block 350 (offshore Louisiana) resulted in an oil well which tested at a rate of 765 barrels per day through a 14/64 inch choke. Petrol owns a 1.5% interest in Block 350.

## FINANCIAL REVIEW

Petrol's consolidated net income in 1979 at \$1,563,000 was slightly lower (1.1%) than earnings of \$1,580,000 in 1978.

The decline was primarily due to lower crude oil production from the Simonette D<sub>3</sub> field, the limited demand for natural gas and higher operating costs. Partially offsetting these were improved product prices and a lower provision for Petrol's share of the loss of Decalta International Corporation. Cash flow and earnings per share based upon 3,995,000 outstanding common shares are shown below:

IN SUMMARY (thousands of dollars)	Change from 1978		
	1979	Amount	%
Oil and gas revenues	\$4,281	(\$12)	(0.2)
Cash expenses	1,150	179	18.5
Income taxes	940	15	1.6
Cash flow net of			
current income taxes	2,556	(430)	(14.4)
per share - ¢	64.0	(10.7)	
Net income	1,563	(17)	(1.1)
per share - ¢	39.1	(0.5)	

Production, administration and interest expenses in 1979 amounted to \$1,150,000, an increase of \$179,000 or 18.5% over 1978. Production expenses increased by \$136,000 (16.4%); 57% of the increase was attributable to operations at Simonette and 36% to the operation of new properties.

The provision for depreciation and depletion decreased by \$6,000 and Petrol's share of the loss of an affiliated company declined by \$142,000 during the year. The provision for income taxes in 1979 increased by 1.6% to \$940,000 of which \$135,000 was deferred and \$805,000 was a current income tax liability.

### Source and Use of Funds

Funds available to the Company during 1979 totalled \$2,556,000, a decrease of \$430,000 or 14.4% below 1978. Prepayments on future gas deliveries amounted to \$46,000 in 1979 which was set up as deferred income with prior year's prepayments and will be taken into income when actual delivery of gas is made; in the meantime, the Company is using the funds in the conduct of its business.

Funds applied during 1979 totalled \$4,752,000, 118.4% higher than the \$2,175,000 level in 1978. The increase was largely accounted for by the acquisition at year-end of a 15% interest in Decalta International Corporation's producing properties in California at a cost of \$1,164,000 and an advance to the same corporation of \$1,574,000. The remaining outlays were used for exploration, development and land acquisitions. Working capital at the end of 1979 amounted to \$777,000 versus \$2,927,000 at the prior year-end.

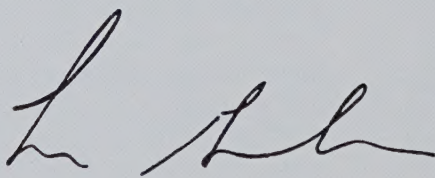


## Consolidated Balance Sheet

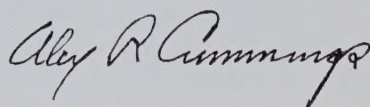
December 31, 1979 and 1978

Assets	1979	1978
CURRENT		
Cash and short term deposits .....	\$ 518,000	\$ 2,121,000
Accounts receivable .....	285,000	317,000
Due from parent company .....	438,000	—
Due from affiliated company .....	—	53,000
Income taxes recoverable .....	432,000	695,000
Prepaid expenses .....	16,000	18,000
	<u>1,689,000</u>	<u>3,204,000</u>
INVESTMENTS IN AFFILIATED COMPANY (Note 2) .....	<u>2,446,000</u>	<u>1,011,000</u>
PROPERTY AND EQUIPMENT		
Oil and gas properties less accumulated depletion (1979 - \$4,729,000; 1978 - \$4,258,000) .....	9,434,000	7,283,000
Plant and equipment less accumulated depreciation (1979 - \$2,227,000; 1978 - \$1,986,000) .....	2,131,000	1,823,000
	<u>11,565,000</u>	<u>9,106,000</u>
	<u>\$15,700,000</u>	<u>\$13,321,000</u>

On Behalf of the Board:



Director



Director



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<b>Liabilities</b>	<b>1979</b>	<b>1978</b>
CURRENT		
Accounts payable .....	\$ 63,000	\$ 20,000
Due to parent company .....	—	257,000
Due to affiliated company .....	849,000	—
	<u>912,000</u>	<u>277,000</u>
PREPAYMENTS ON FUTURE GAS DELIVERIES .....	<u>244,000</u>	<u>198,000</u>
DEFERRED INCOME TAXES .....	<u>2,600,000</u>	<u>2,465,000</u>
SHAREHOLDERS' EQUITY		
Capital –		
Authorized:		
8,000,000 shares of no par value		
Issued:		
3,995,000 shares .....	2,744,000	2,744,000
Retained earnings .....	9,200,000	7,637,000
	<u>11,944,000</u>	<u>10,381,000</u>
	<u>\$15,700,000</u>	<u>\$13,321,000</u>
CONTINGENT LIABILITIES (Note 2)		

*See accompanying notes*

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## Consolidated Statement of Income and Retained Earnings

Years Ended December 31, 1979 and 1978

	1979	1978
INCOME		
Oil and gas revenues . . . . .	\$ 4,281,000	\$ 4,293,000
Interest and other income . . . . .	230,000	189,000
	<u>4,511,000</u>	<u>4,482,000</u>
EXPENSES		
Production . . . . .	966,000	830,000
General and administrative . . . . .	184,000	141,000
Depreciation . . . . .	247,000	229,000
Depletion . . . . .	472,000	496,000
	<u>1,869,000</u>	<u>1,696,000</u>
INCOME BEFORE INCOME TAXES and share of loss of affiliated company . . . . .	<u>2,642,000</u>	<u>2,786,000</u>
Income taxes – current (Note 4) . . . . .	805,000	525,000
– deferred . . . . .	135,000	400,000
	<u>940,000</u>	<u>925,000</u>
Income before share of loss of affiliated company . . . . .	1,702,000	1,861,000
Share of loss of affiliated company (Note 2) . . . . .	<u>(139,000)</u>	<u>(281,000)</u>
NET INCOME FOR THE YEAR (per share: 1979 – 39.1¢; 1978 – 39.6¢) . . . . .	1,563,000	1,580,000
Retained earnings at beginning of year . . . . .	7,637,000	6,057,000
Retained earnings at end of year . . . . .	<u>\$ 9,200,000</u>	<u>\$ 7,637,000</u>

See accompanying notes



## Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1979 and 1978

	1979	1978
<b>SOURCE OF FUNDS</b>		
From operations		
Net income for the year . . . . .	<b>\$ 1,563,000</b>	\$ 1,580,000
Add items not affecting working capital		
Depreciation . . . . .	<b>247,000</b>	229,000
Depletion . . . . .	<b>472,000</b>	496,000
Deferred income taxes . . . . .	<b>135,000</b>	400,000
Share of loss of affiliated company . . . . .	<b>139,000</b>	281,000
	<hr/>	<hr/>
Funds from operations . . . . .	<b>2,556,000</b>	2,986,000
Prepayments on future gas deliveries . . . . .	<b>46,000</b>	88,000
	<hr/> <b>2,602,000</b>	<hr/> 3,074,000
 <b>APPLICATION OF FUNDS</b>		
Additions to property and equipment . . . . .	<b>3,178,000</b>	2,055,000
Repayments of production bank loan . . . . .	<b>—</b>	120,000
Advance to affiliated company . . . . .	<b>1,574,000</b>	—
	<hr/> <b>4,752,000</b>	<hr/> 2,175,000
Increase (decrease) in working capital . . . . .	<b>(2,150,000)</b>	899,000
Working capital at beginning of year . . . . .	<b>2,927,000</b>	2,028,000
Working capital at end of year . . . . .	<hr/> <b>\$ 777,000</b>	<hr/> \$ 2,927,000

See accompanying notes



## Notes to Consolidated Financial Statements

December 31, 1979 and 1978

### 1. SUMMARY OF ACCOUNTING POLICIES

#### a) Consolidation

The consolidated financial statements include the accounts of all subsidiaries. The excess of the unamortized cost of purchased subsidiaries over the related net asset values at dates of purchase is included in oil and gas properties and is depleted in the manner described below.

#### b) Property and equipment

The Company follows the full-cost method of accounting for its oil and gas properties wherein all costs relative to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized and are depleted on the composite unit of production method based on estimated proven reserves of oil and gas.

Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful lives of the assets. The Company depreciates well equipment (10%) and gas plants (5%) on the straight line basis.

#### c) Investment in affiliated company

The Company accounts for this investment at cost plus equity in undistributed earnings since acquisition.

#### d) Prepayments on future gas deliveries

Payments received for gas not delivered until required in the future are deferred and will be recorded as income when the equivalent amount of gas is delivered.

#### f) Foreign currency translation

Accounts of the foreign subsidiary are translated into Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange at the balance sheet date; fixed assets and other non-current assets at historic rates of exchange; and revenues and expenses, except depreciation and depletion at average rates of exchange during the year. Depletion and depreciation is recorded at historic rates of exchange. Exchange gains or losses are included in income.

### 2. INVESTMENT IN AFFILIATED COMPANY

The Company owns a 15% equity interest in Decalta International Corporation. The remaining 85% is owned by other subsidiaries of the Company's parent, Western Decalta Petroleum (1977) Limited.

Details of the investment are:

	1979	1978
15,000 common shares .....	\$ 15,000	\$ 15,000
13,500 preferred shares .....	1,350,000	1,350,000
Note receivable .....	1,574,000	—
Equity in losses since date of acquisition .....	(493,000)	(354,000)
	<u>\$ 2,446,000</u>	<u>\$ 1,011,000</u>



The financial position of Decalta International Corporation at December 31, 1979 and 1978 is summarized as follows:

	1979	1978
Working capital (deficiency) . . . . .	<b>\$ 4,410,000</b>	\$ (3,449,000)
Property and equipment – net . . . . .	<b>15,760,000</b>	23,824,000
	<u><b>\$20,170,000</b></u>	<u>\$20,375,000</u>
Long term debt . . . . .	<u><b>\$14,359,000</b></u>	<u>\$13,636,000</u>
Share capital issued and outstanding		
100,000 common shares . . . . .	<b>100,000</b>	100,000
90,000 preferred shares . . . . .	<b>9,000,000</b>	9,000,000
Deficit . . . . .	<u><b>(3,289,000)</b></u>	<u>(2,361,000)</u>
	<u><b>5,811,000</b></u>	<u>6,739,000</u>
	<u><b>\$20,170,000</b></u>	<u>\$20,375,000</u>

The accounting policies followed by Decalta International Corporation are essentially the same as those followed by the Company.

The Company is contingently liable as a guarantor of natural gas development advances to Decalta International Corporation to the extent of \$326,000 U.S.

## Auditors' Report to the Shareholders of The Petrol Oil & Gas Company, Limited

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited as at December 31, 1979 and 1978 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis during the period.

Calgary, Canada  
March 6, 1980

*Clarkson Gordon*  
CHARTERED ACCOUNTANTS



## Five Year Review

**Financial** (thousands of dollars except share amounts)

	1979	1978	Change		1977	1976	1975
			79/78	%			
<b>Income</b>							
Oil and natural gas liquids sales . . . . .	<b>\$4,509</b>	\$4,849	\$ (340)	(7.0)	\$4,247	\$3,570	\$3,655
Natural gas sales . . . . .	<b>1,947</b>	1,802	145	8.0	1,576	952	720
Sulphur sales . . . . .	<b>6</b>	2	4	200.0	2	7	15
Gross product sales . . . . .	<b>6,462</b>	6,653	(191)	(2.9)	5,825	4,529	4,390
Royalty expense . . . . .	<b>2,280</b>	2,439	(159)	(6.5)	2,045	1,566	1,438
Net product sales . . . . .	<b>4,182</b>	4,214	(32)	(0.8)	3,780	2,963	2,952
Royalty revenue . . . . .	<b>99</b>	79	20	25.3	73	55	44
Oil and gas revenues . . . . .	<b>4,281</b>	4,293	(12)	(0.3)	3,853	3,018	2,996
Interest and other income . . . . .	<b>230</b>	189	41	21.7	86	25	2
Gross Income . . . . .	<b>4,511</b>	4,482	29	0.6	3,939	3,043	2,998
<b>Cash Expenses</b>							
Production . . . . .	<b>966</b>	830	136	16.4	713	682	579
General and administrative . . . . .	<b>184</b>	133	51	38.3	109	106	96
Interest . . . . .	<b>-</b>	8	(8)		17	33	47
<b>Other Costs</b>							
Depreciation and depletion . . . . .	<b>719</b>	725	(6)	(0.8)	645	527	547
Income taxes . . . . .	<b>940</b>	925	15	1.6	832	580	590
Share of earnings (loss) of affiliated company . . . . .	<b>(139)</b>	(281)	(142)	(50.5)	(59)	(15)	(8)
<b>Net Income</b> . . . . .	<b>1,563</b>	1,580	(17)	(1.1)	1,564	1,100	1,131
Per share - ¢ . . . . .	<b>39.1</b>	39.6	(0.5)		39.1	27.5	28.3
<b>Cash Flow</b> . . . . .	<b>2,556</b>	2,986	(430)	(14.4)	2,388	1,892	1,926
Per share - ¢ . . . . .	<b>64.0</b>	74.7	(10.7)		59.8	47.4	48.2
<b>Gross Production and Prices</b>							
<b>Metric (SI) System</b>							
Oil and natural gas liquids - 10 <sup>3</sup> m <sup>3</sup> . . . . .	<b>55</b>	66	(11)	(16.6)	68	68	86
Average price - \$m <sup>3</sup> . . . . .	<b>84.20</b>	73.63	10.57	14.4	62.62	52.36	45.12
Natural gas - 10 <sup>6</sup> m <sup>3</sup> . . . . .	<b>31</b>	33	(2)	(5.6)	34	28	31
Average price - 10 <sup>3</sup> m <sup>3</sup> . . . . .	<b>62.53</b>	55.37	7.16	12.8	47.21	34.07	23.07
<b>Imperial System</b>							
Oil and natural gas liquids - thousands of barrels . . . . .	<b>345</b>	414	(69)	(16.7)	427	429	510
Average price - \$ bbl. . . . .	<b>13.38</b>	11.70	1.68	14.4	9.95	8.32	7.17
Natural gas - millions of cubic feet . . . . .	<b>1,105</b>	1,162	(57)	(5.6)	1,183	992	1,112
Average price - \$mcf . . . . .	<b>1.76</b>	1.56	0.20	12.8	1.33	0.96	0.65



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	1979	1978	1977	1976	1975
<b>Balance Sheet Data</b>					
Working capital . . . . .	\$ 777	\$2,927	\$2,027	\$1,296	\$ 541
Property and equipment – net . . . . .	11,565	9,106	7,776	6,799	6,284
Production bank loans . . . . .	—	—	120	240	360
Deferred production income . . . . .	244	198	110	25	—
Deferred income taxes . . . . .	2,600	2,465	2,065	1,945	1,695
Shareholders' equity . . . . .	11,944	10,381	8,801	7,237	6,137
<b>Other Data</b>					
Shares outstanding . . . . .	3,995	3,995	3,995	3,995	3,995
Number of shareholders . . . . .	1,696	1,840	1,824	1,901	2,050
<b>Expenditures For Finding and Developing Production</b>					
Land acquisitions and rentals . . . . .	1,518	395	768	288	200
Geological and geophysical . . . . .	68	179	76	46	59
Dry holes . . . . .	203	498	108	62	265
Productive drilling . . . . .	760	695	477	381	233
Production equipment . . . . .	629	288	193	265	241
Total . . . . .	3,178	2,055	1,622	1,042	998
<b>Changes in Financial Position</b>					
Cash flow from operations less current income taxes . . . . .	2,556	2,986	2,388	1,892	1,926
Prepayment on future gas deliveries . . . . .	46	88	85	25	—
Other . . . . .	—	—	—	—	1
Total source of funds . . . . .	2,602	3,074	2,473	1,917	1,927
Expenditures for finding and developing production . . . . .	3,178	2,055	1,622	1,042	998
Repayments of bank loans . . . . .	—	120	120	120	120
Other . . . . .	1,574	—	—	—	—
Total application of funds . . . . .	4,752	2,175	1,742	1,162	1,118
Increase (decrease) in working capital . . . . .	(2,150)	899	731	755	809

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